

The digital communications market: challenges and opportunities

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**REGIONAL FORUM ON POLICY AND
REGULATION IN THE ELECTRONIC MEDIA
SECTOR**

July 5-6, 2010

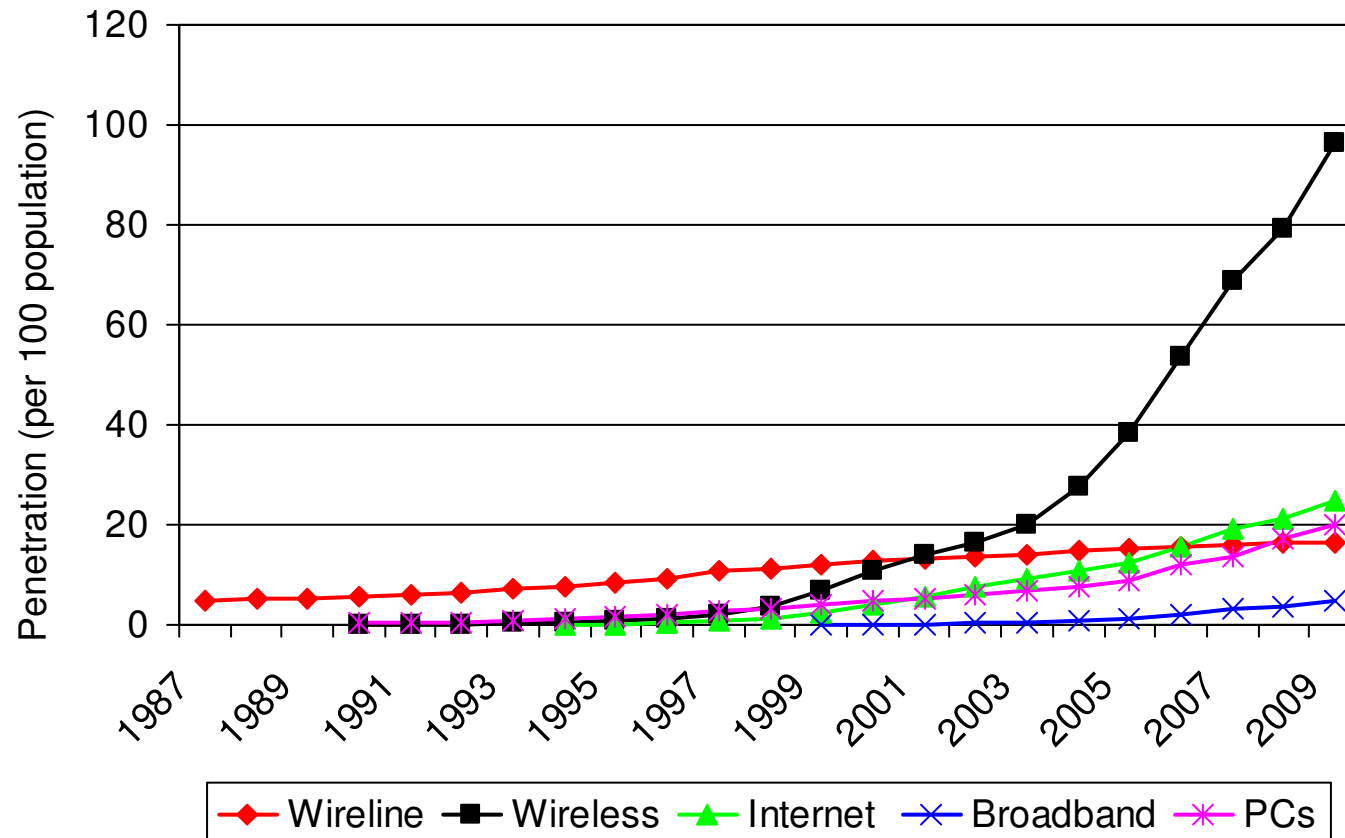
Kingston, Jamaica

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- 1. The progress and success in Latin American and the Caribbean ICT deployment to date**
- 2. Forward looking opportunities**
- 3. The counter-cyclical value of ICT**
- 4. The role of public policy**

Wireless and Internet adoption in Latin America and the Caribbean has been proceeding at a very fast pace in the past ten years

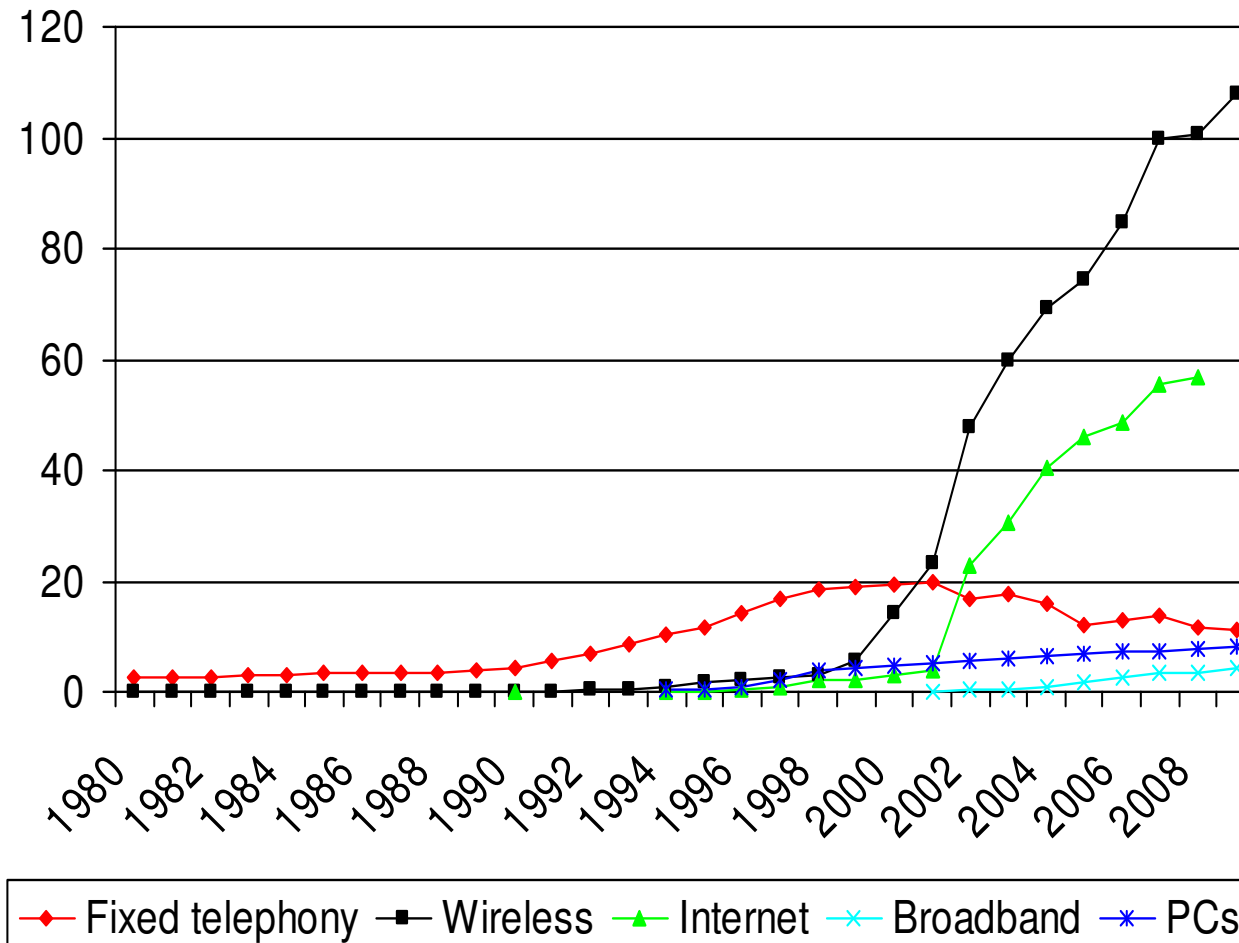
LATIN AMERICA AND THE CARIBBEAN: ICT ADOPTION (1987-2009)



Sources: ITU; Wireless Intelligence; Regulatory authorities

Jamaica is particularly well developed in terms on ICT adoption

JAMAICA: ICT ADOPTION (1980-2009)

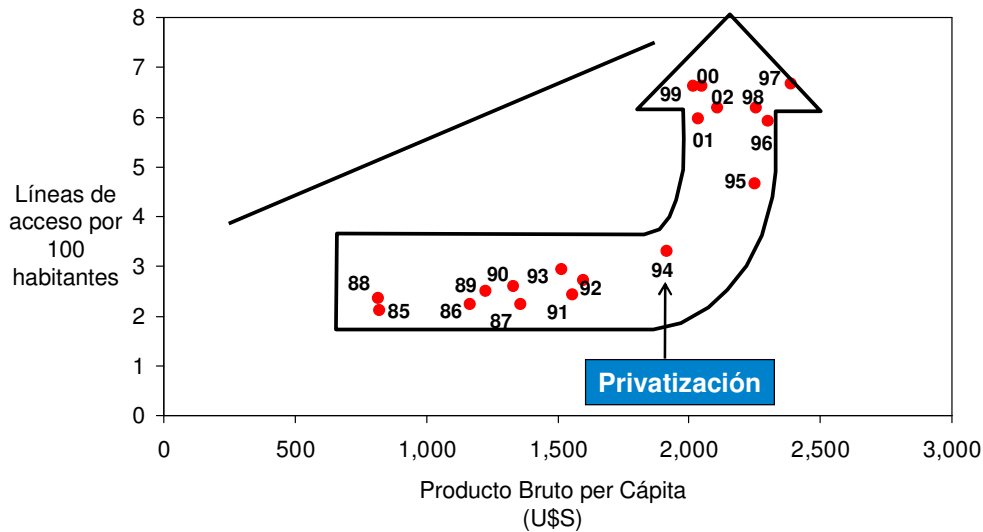


Sources: ITU, Euromonitor; Office of Utilities Regulation (OUR)

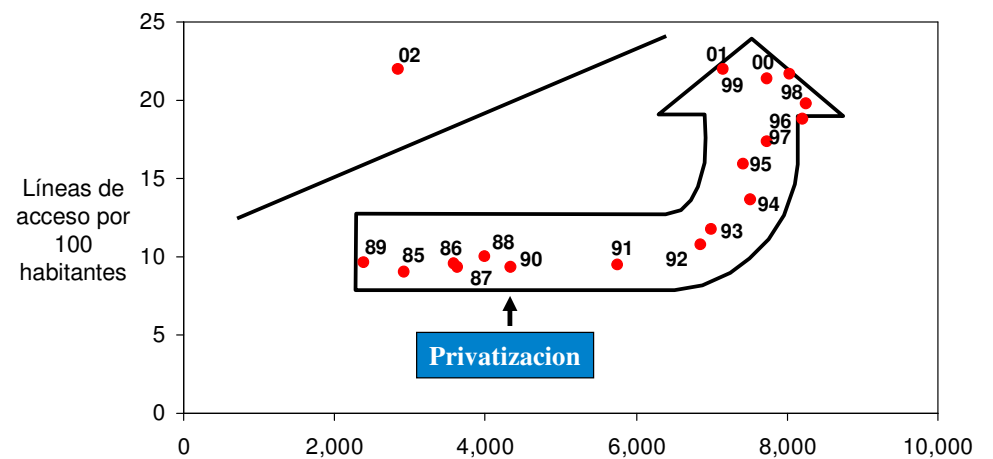
Initially, the privatization of incumbents in Latin America contributed to closing the voice telephony gap

WIRELINE TELEDENSITY AND ECONOMIC DEVELOPMENT (1989-2002)

PERU



ARGENTINA

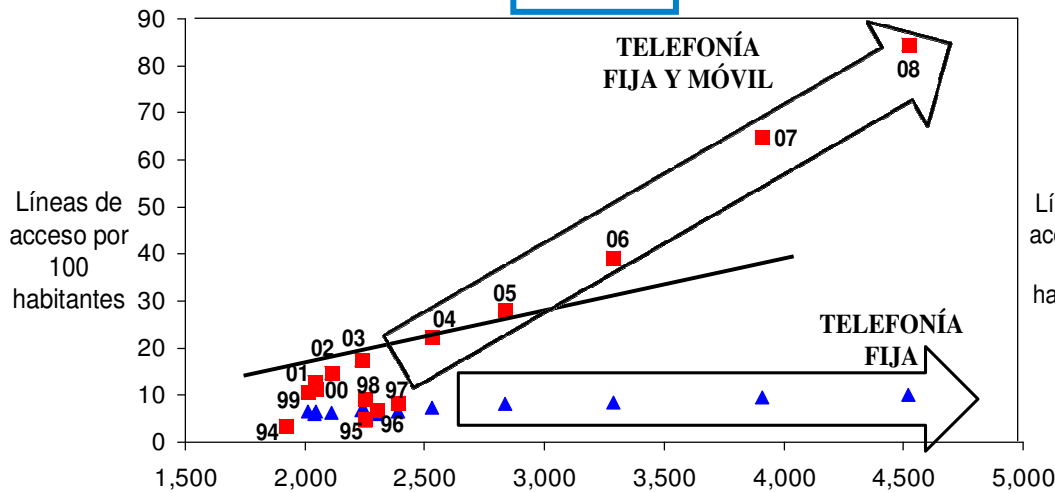


Sources: ITU; CNC; Osiptel; World Bank; analysis by the author

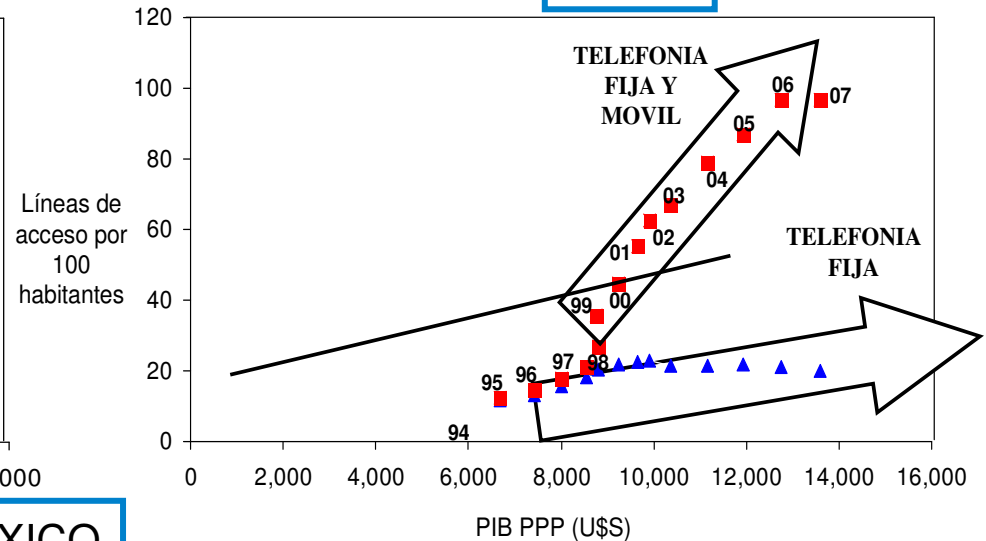
Later on, wireless telephony allowed to reach high levels of technology adoption

WIRELINE / WIRELESS TELEDENSITY AND ECONOMIC DEVELOPMENT (1987-2008)

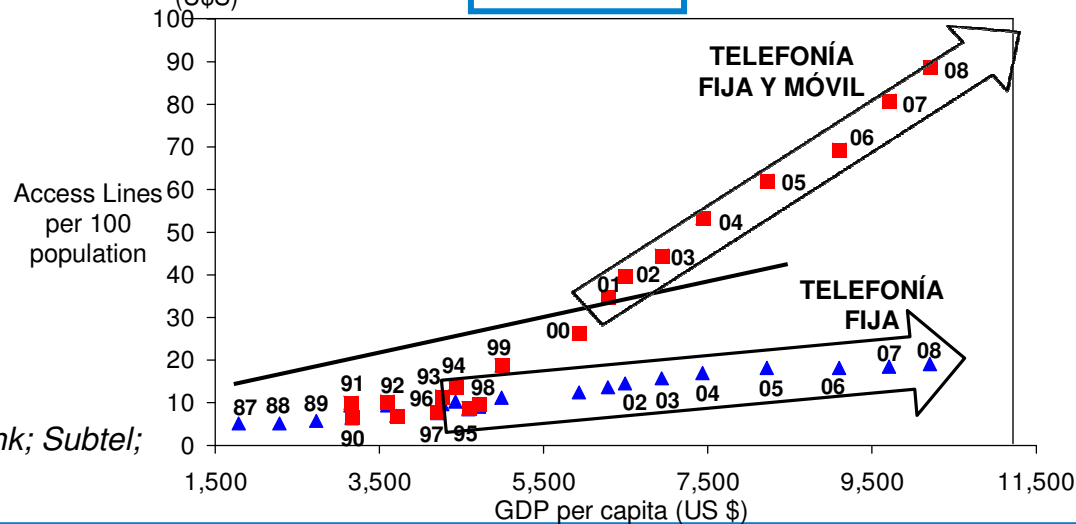
PERU



CHILE



MEXICO



Sources: ITU; World Bank; Subtel; analysis by the author

Furthermore, wireless telephony is contributing to closing the technology gap

ESTIMATED WIRELESS PENETRATION BY SOCIO-DEMOGRAPHIC SEGMENT(2009)

COUNTRY	PENETRATION		
	TOTAL	TOP OF THE PYRAMID	BOTTOM OF THE PYRAMID
Argentina	127 %	110 %	77 %
Barbados	88 %		
Bermuda	93 %		
Brazil	91 %	96 %	70 %
Bolivia	50 %	87 %	14 %
Chile	97 %	103 %	63 %
Colombia	84 %	94 %	51 %
Dominican Republic	73 %		
Ecuador	86 %	90 %	28 %
Jamaica	107 %		
Mexico	80 %	93 %	61 %
Peru	74 %	88 %	16 %
Venezuela	104 %	111 %	23 %

Sources: Euromonitor; ITU; analysis by the author

Looking forward, the objective is to replicate the success of wireless voice in four areas

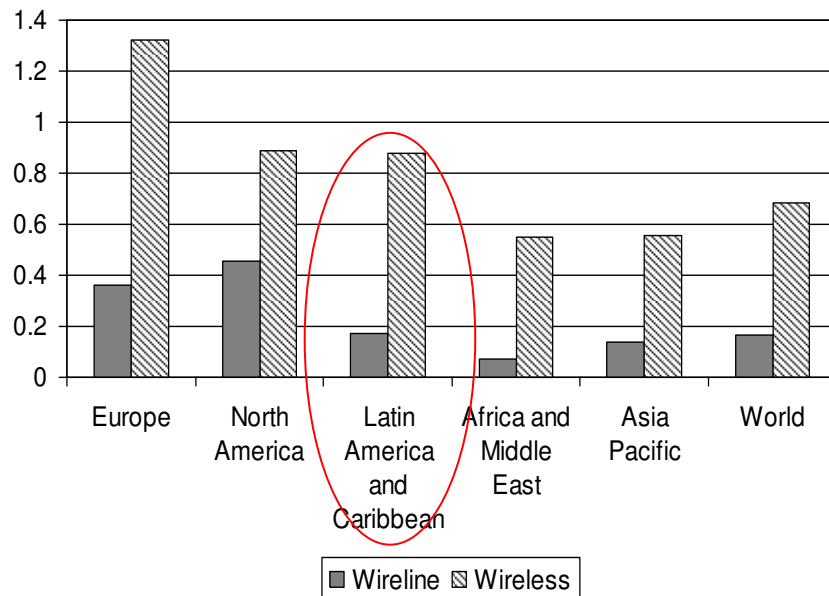
- Increase qualitatively and quantitatively broadband deployment
- Develop the technology infrastructure of the most economically advanced areas of Latin America and the Caribbean to the level of industrialized countries
- Accelerate the ICT adoption level in the small and medium enterprises
- Complete the service coverage in rural zones and disadvantaged segments

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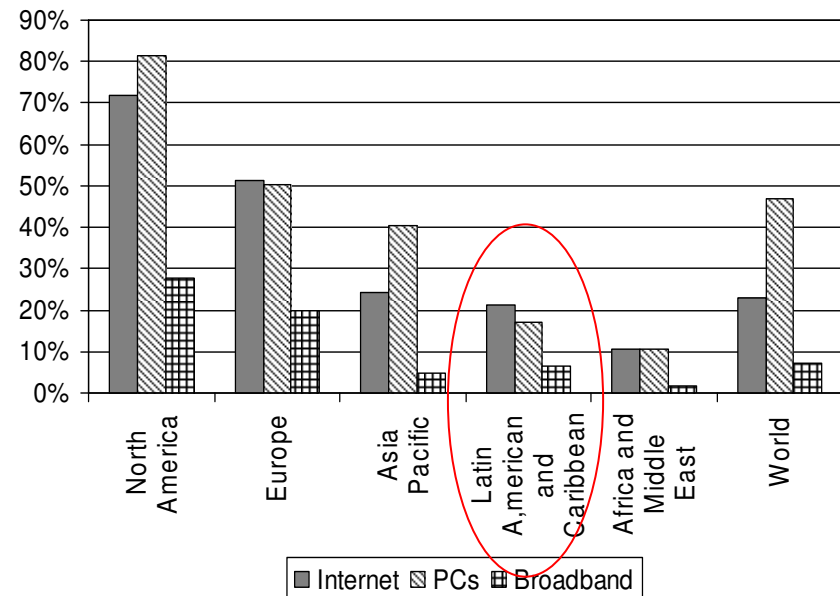
1. The progress and success in Latin American and the Caribbean ICT deployment to date
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Latin America and the Caribbean are underdeveloped with regards to broadband adoption

VOICE TELEPHONY (2009)



INTERNET, PC AND BROADBAND ADOPTION (2009)*

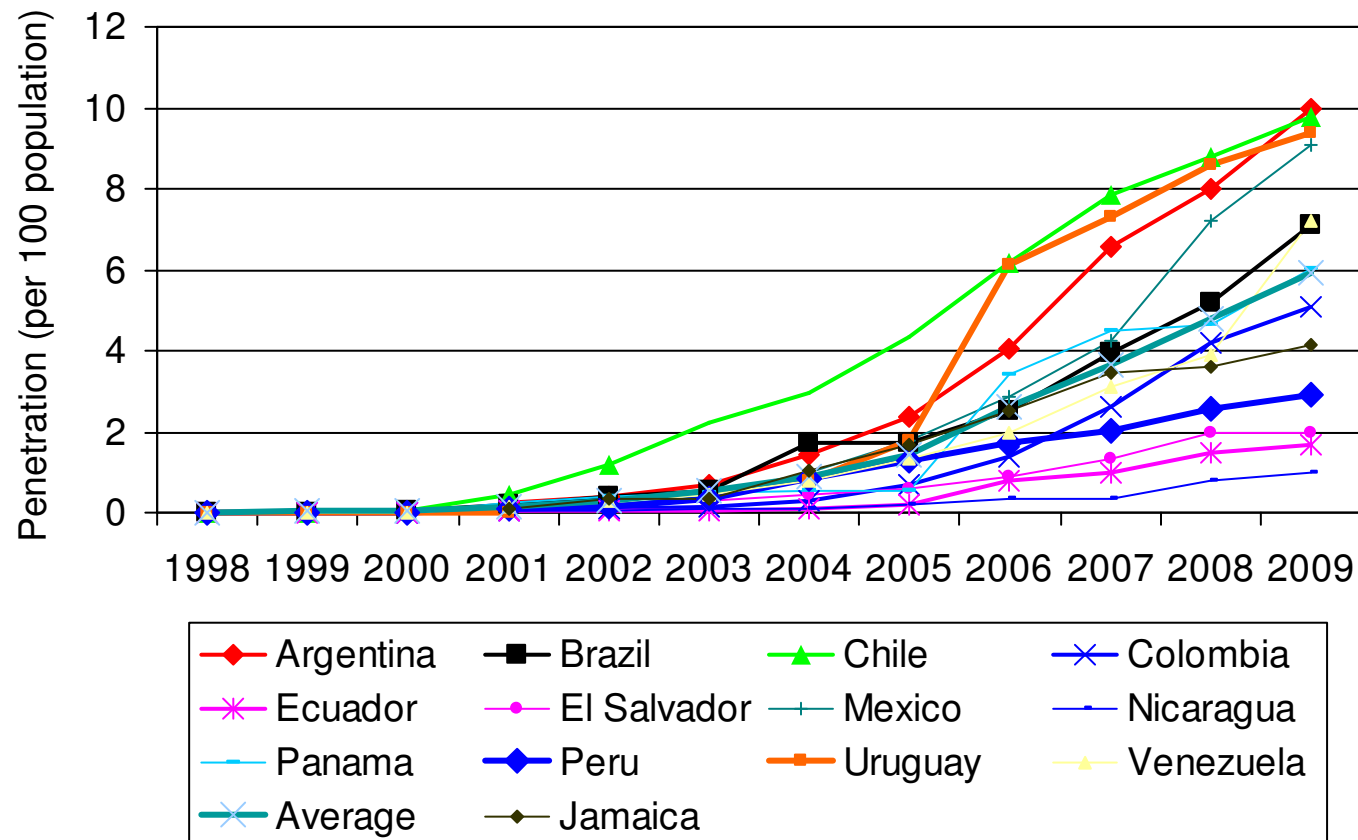


* Internet and PCs (2008)

Sources: ITU; Regulatory authorities; compiled by the author

Broadband growth year-to-year has been explosive since 2007, indicating the existence of unmet demand

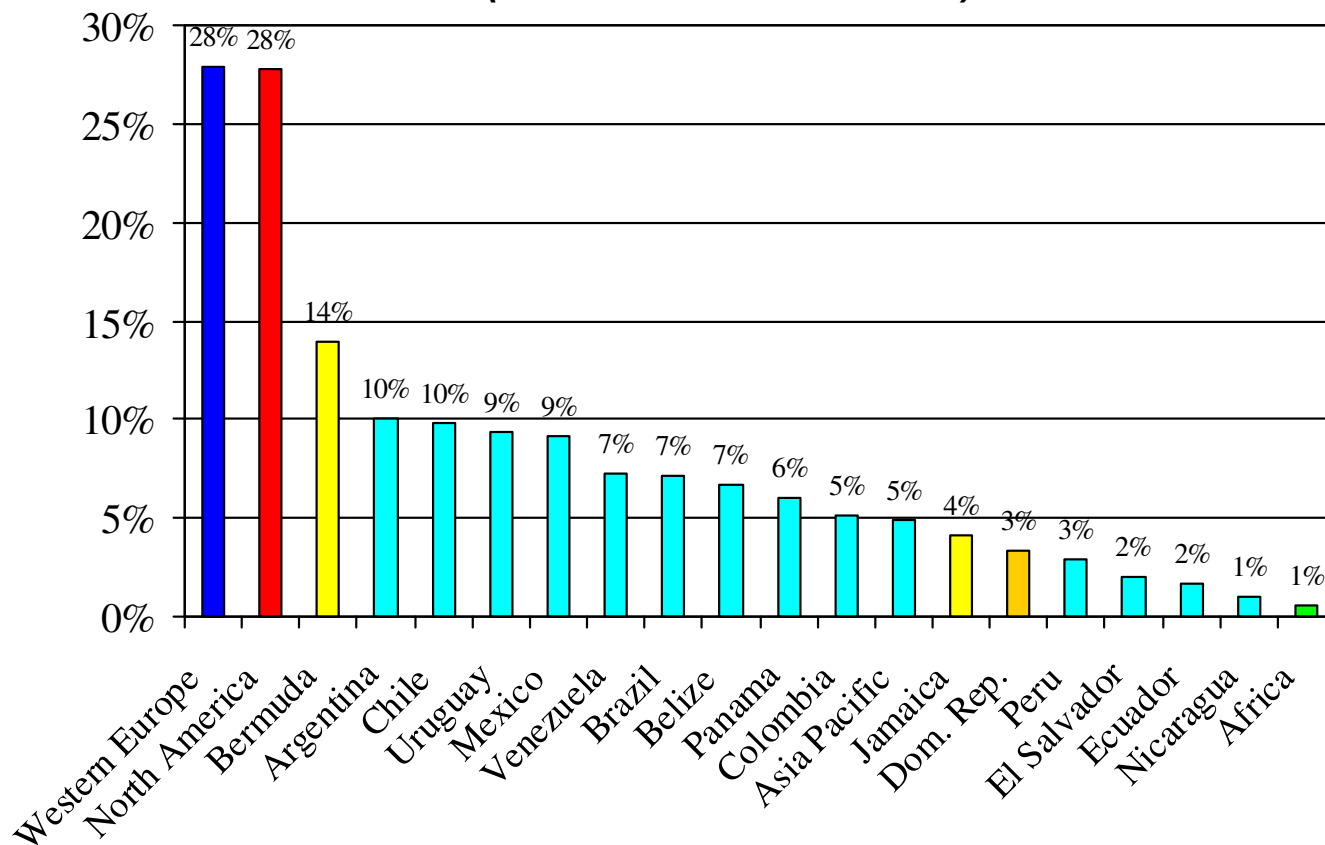
LATIN AMERICA AND CARIBBEAN: BROADBAND DIFFUSION (1998-2009)



Sources: ITU; regulatory authorities

However, broadband still needs to increase its penetration to reach the level of adoption that corresponds to the economic development of the region

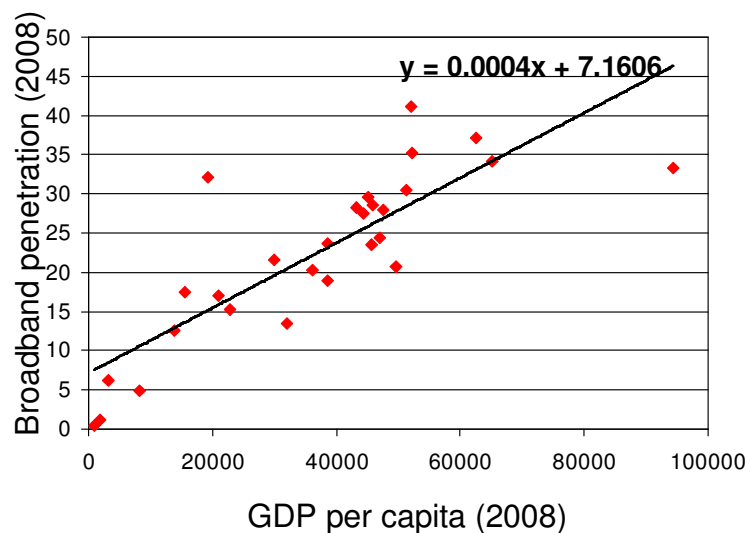
**BROADBAND COMPARATIVE PENETRATION (2009)
(PER 100 POPULATION)**



Sources: IDC; UBS; ITU; OECD; analysis by the author

The broadband demand gap requires an increase in 17 million lines in order to meet the needs of the Latin American/Caribbean economy

LATIN AMERICA/CARIBBEAN: BROADBAND SUPPLY-DEMAND GAP



Sources: UBS; IDC; World Bank; Telegeography; analysis by the author

COUNTRY	NUMBER OF LINES (2009)	LINES DEMAND	GAP 2009
Argentina	4,256,194	4,411,047	154,853
Bolivia	113,750	721,520	607,770
Brazil	11,460,960	17,060,659	5,599,699
Chile	1,665,059	1,887,662	222,603
Colombia	2,240,000	4,071,423	1,831,423
Costa Rica	250,000	461,856	211,856
Ecuador	295,000	1,534,585	1,239,585
El Salvador	120,637	531,375	410,738
Guatemala (e)	35,000	1,130,304	1,095,304
Jamaica	114,000	254,000	140,458
Mexico	9,375,000	10,851,798	1,476,798
Nicaragua	55,000	429,739	374,739
Panama	204,335	343,583	139,248
Paraguay	103,000	506,060	403,060
Peru	813,200	2,514,315	1,701,115
Uruguay	317,010	373,288	56,278
Venezuela	1,860,730	3,105,228	1,244,498
Total	33,278,875	50,188,442	16,910,025

In addition, there is a need to deploy technology in the most advanced geographic centers in order for them to reach the levels of industrialized countries

SOUTH NAFTA CORRIDOR

Population	33 Million
GDP	\$ 416 Billion
GDP per capita PPP	\$ 19,908

CARIBBEAN CLUSTER

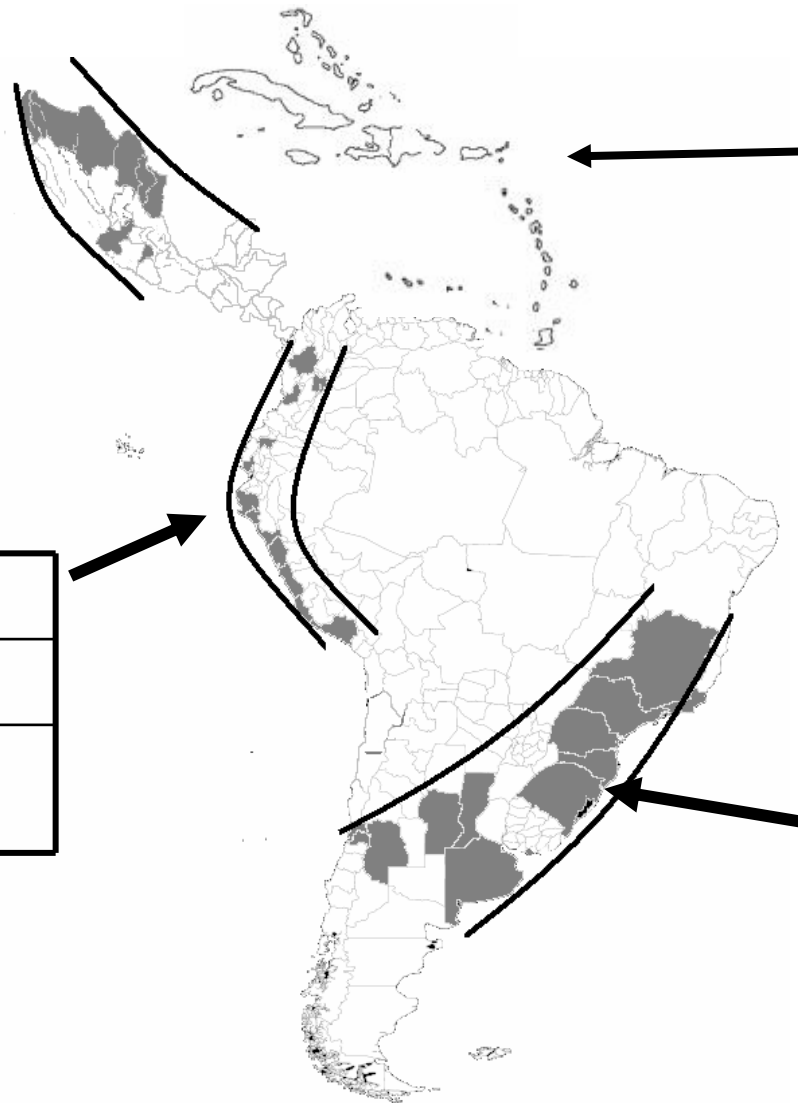
Population	35.7 million
GDP	\$ 129.8 B
GDP per capita PPP	2,719

ANDEAN CORRIDOR

Population	48 Million
GDP	\$ 236 Billion
GDP per capita PPP	\$ 9,398

MERCOSUR CORRIDOR

Population	133 million
GDP	\$ 1,033 B
GDP per capita PPP	\$ 12,795

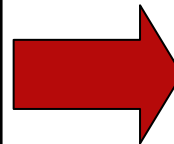


Finally, there is a need to accelerate ICT adoption among small and medium enterprises

The SMEs are the continent's economic engine...

...and they are still underserved by ICT

	Contribution to:		
	Employment	GDP	Exports
Argentina	75 %	60 %	25 %
Brazil	67 %	28 %	23 %
Chile	80 %	17 %	12 %
Colombia	50 %	40 %	20 %
Ecuador	60 %	50 %	25 %
El Salvador	66 %	44 %	...
Mexico	75 %	52 %	26 %
Peru	70 %	40 %	25 %



	PCs	Internet	Broadband
Argentina	43 %	97 %	75 %
Brazil	69 %	54 %	8.3 %
Chile	74 %	66 %	60 %
Colombia	37 %	88 %	17 %
Ecuador	30 %	47%	
El Salvador	47 %	36 %	50 %
Mexico	87 %	73 %	45 %
Peru (*)	27 %	23 %	15 %

(*) Includes microenterprises

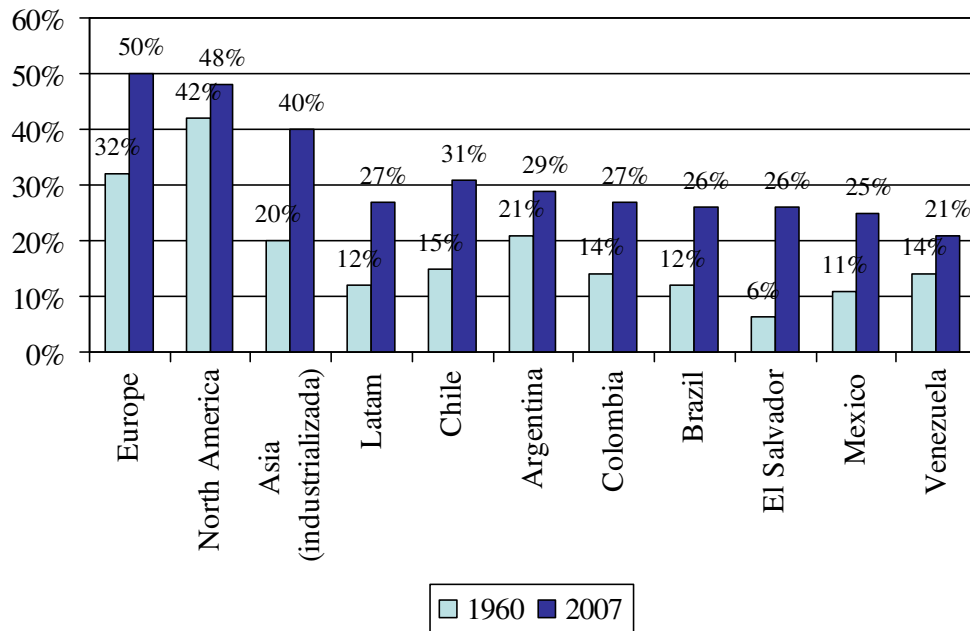
Source: Katz (2009)

This quantitative and qualitative leap is critical to meet three economic imperatives

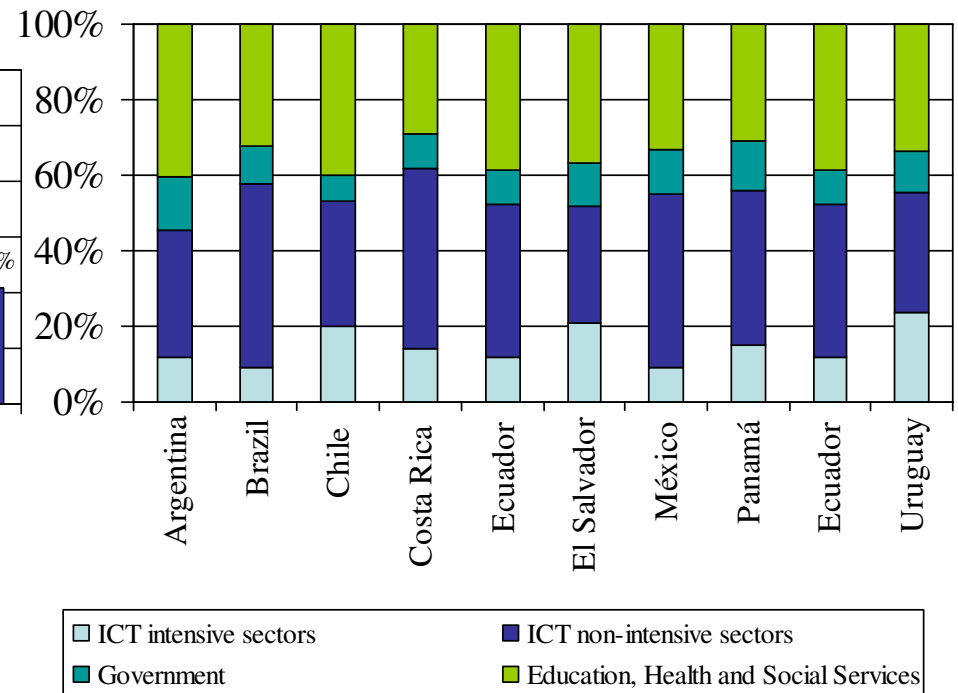
- The Latin American and Caribbean economies are becoming more information-intensive
- ICT represent a critical factor to increase the added value of small and medium enterprises
- ICT, particularly broadband, have been identified as a key factor in employment creation

The information sector of Latin American and Caribbean economies has grown substantially in the last decades

Latin America: Information workers as a percentage of the economically active population (1960-2007)



Latin America: Composition of Information Workforce (2007)

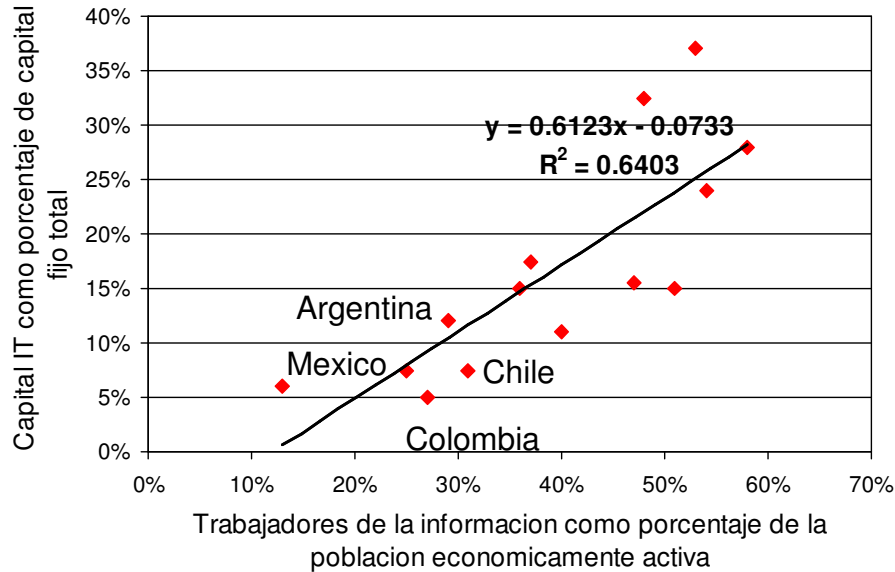


In Jamaica (1998), information workers represented 24% of the economically active population; the percentage raised to 29% by 2008

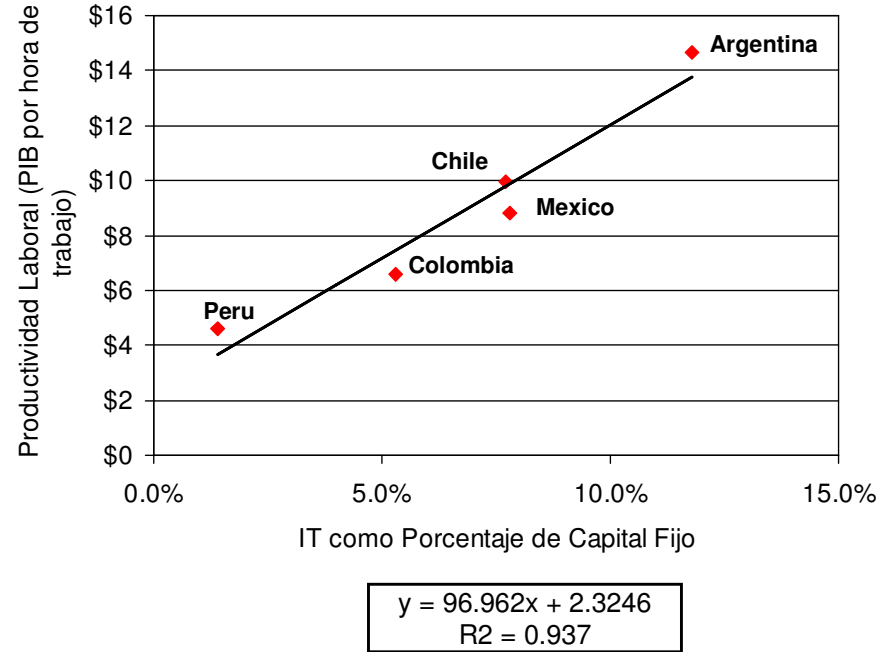
Sources: ILO Laborsta; analysis by the author

The size of the information workforce is driving the direct relationship between ICT investment and labor productivity

América Latina: Sector Información e Inversión en Tecnologías de Información (2007)



América Latina: Relación entre Inversión de Capital TI(*) y Productividad (2001)



ICT capital investment contributed to 0.62 % of Chilean economic growth between 1990 and 2004 0.21% of economic growth in Brazil between 1995 and 2004

To sum up, the Latin American and Caribbean challenge is to increase broadband penetration combined with all other ICT platforms to promote economic growth and enhance productivity

- Latin America and the Caribbean lag in the diffusion of broadband relative to its level of economic development
- High level estimates indicate a gap amounting to 17 million broadband lines
- The challenge remains to increase adoption of broadband not only in the aggregate but also in those regions and sectors that are the regional economic engines (key geographic corridors, small and medium enterprises)
- Achieving this objective is not discretionary given the structural transformation undergoing Latin American and Caribbean economies: a transition to information intensive production contexts

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The counter-cyclical value of ICT works at two levels

INFRASTRUCTURE DEPLOYMENT EFFECTS

- **Direct effects:** employment (construction, telecommunications and engineering) and output generated in the short term due to deployment of networks
- **Indirect effects:** employment (steel, electrical equipment, professional services) and output generated by indirect spending triggered by direct effects as a result of sector interrelationships
- **Induced effects:** employment (consumer electronics, retailing) and output generated by household spending as a result of income triggered by direct and indirect effects

POSITIVE EXTERNALITIES

- **Productivity:** diffusion of more efficient business processes (supply chain optimization, marketing of excess inventories) enabled by adoption of ICT platforms
- **Innovation:** acceleration of innovation rate resulting from the adoption of applications and broadband services (e-commerce, distance learning, social networks, mobile payment systems)
- **Value chain recomposition:** attraction of employment from other regions as a result of enhancing the capacity of processing information and providing remote services (outsourcing, call centers, development zones)

Network construction effects and multipliers are significant

NETWORK CONSTRUCTION EFFECT OF BROADBAND

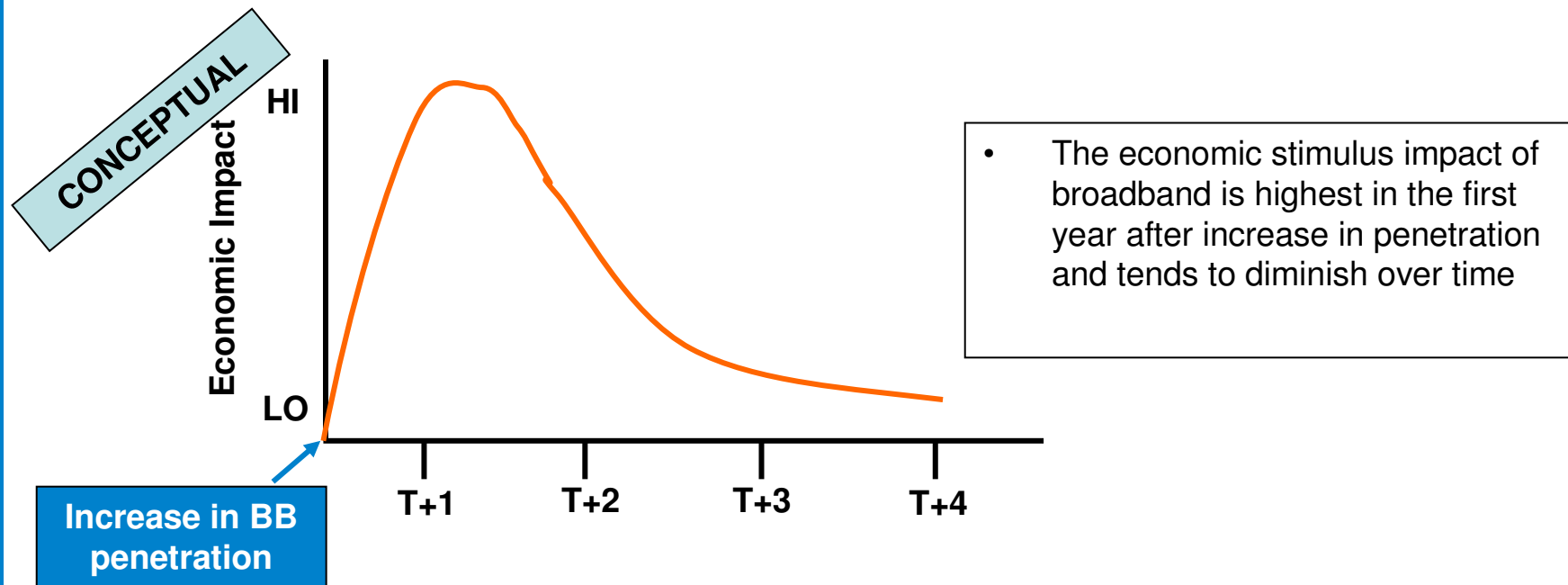
COUNTRY	STIMULUS INVESTMENT (USD billion)	NETWORK DEPLOYMENT JOBS ESTIMATE				MULTIPLIERS	
		DIRECT	INDIRECT	INDUCED	TOTAL	TYPE I (*)	TYPE II (**)
UNITED STATES	\$ 6,390	37,000	31,000	60,000	128,000	1.83	3.42
SWITZERLAND	~\$ 10,000	~80,000	~30,000	N.A.	~110,000	1.38	N.A.
GERMANY	\$ 47,660	281,000	126,000	135,000	542,000	1.45	1.94
UNITED KINGDOM	\$ 7,463	76,500	134,500		211,000		2.76
AUSTRALIA	\$ 31,340				~200,000		

Sources: Katz, R. and Suter, S. (2009). *Estimating the economic impact of the US broadband stimulus plan*, Columbia Institute for Tele-Information working paper; Katz, R., P. Zenhäusern, S. Suter, P. Mahler and S. Vaterlaus (2008). *Economic Modeling of the Investment in FTTH in Switzerland*, unpublished report; Libenau, J., Atkinson, R. (2009) *The UK's digital road to recovery. LSE and ITIF*; Australian government. Katz, R., S. Vaterlaus, P. Zenhäusern, S. Suter and P. Mahler (2009). *The Impact of Broadband on Jobs and the German Economy*; Columbia Institute for tele-Information working paper

(*) (Direct + indirect)/direct
 (**) (Direct + indirect + induced)/direct

In addition, the economic impact of broadband in terms of network externalities has also been found to be significant

- Our analysis for industrialized countries (e.g. Germany) estimates the impact of increase in broadband penetration on rate of economic growth
 - Due to the effect of high broadband penetration growth in 2001, time intervals were calculated for three stages: 2000-1, 2001-2, 2002-3
 - In addition, GDP and employment data was adjusted through an Hodrick-Prescott filter to time series in order to normalize for trends and business cycle effects
- Aggregate results for the whole nation indicate that broadband penetration has a significant short-term effect on economic growth



In Latin America and the Caribbean, when controlling for educational level and starting point of development, 1% increase in broadband penetration yields 0.0178 point contribution to GDP growth

BROADBAND IMPACT ON ECONOMIC GROWTH IN LATIN AMERICA AND CARIBBEAN

$$\text{Avrg GDP growth (04-08)} = \beta_1 * \text{GDP/Capita 2000} + \beta_2 * (\text{Investment/GDP})_{04-08} + \beta_3 * \text{Tertiary Education Lev.} + \beta_4 * (\Delta \text{ broadband})_{03-04}$$

GDP growth	Coefficient	Standard error	T-statistic	P>[t]	95% Conf. interval
GDP per capita 2000	-.0006045	.0002142	-2.82	0.011	-.0010528
Investment/GDP	-.0006496	.108927	-0.01	0.995	-.2286365
Tertiary education level	.1900042	.0670932	2.83	0.011	.0495766
Broadband penetration	.0177989	.0061606	2.89	0.009	.0049046
Constant	7.989611	4.063328	1.97	0.064	-.5150321

Number of observations	24
F(4,14)	14.34
Prob>F	0.0000
R2	0.4311
Root MSE	4.7802

INTERPRETATION

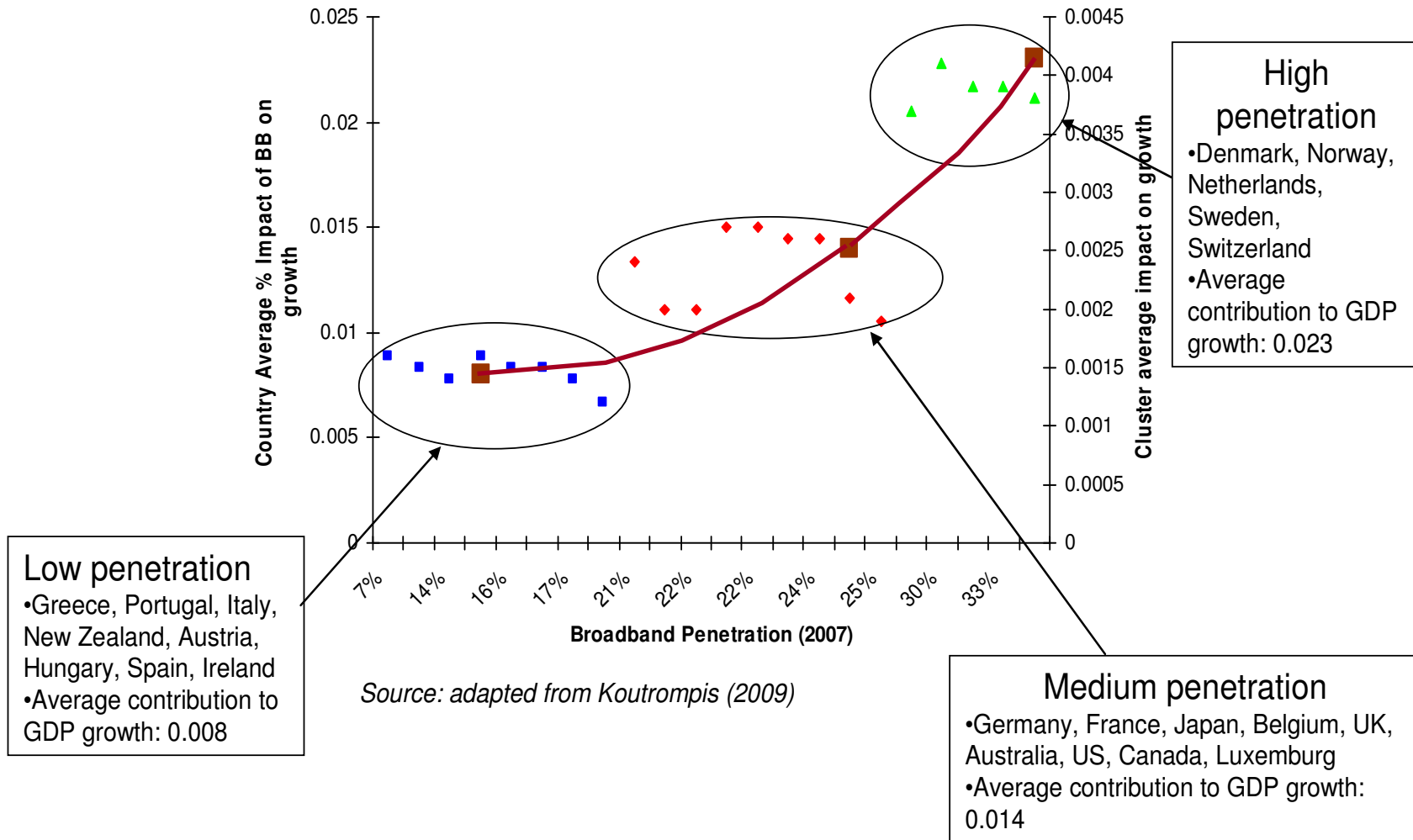
- The difference in impact with the World Bank study could be partially explained by the fact that this study includes countries with higher broadband penetration levels, which have reached higher impact
- The statistical relationship of investment is not significant because this has an impact with a longer time lag
- Tertiary education is used to explain country differences in terms of human capital

According to this model, broadband is contributing between \$6.7 and \$14.3 billion of the Latin American and the Caribbean GDP

- The economic growth of Latin America and the Caribbean between 2009 and 2010 according to the IMF projections will be of 3.4%, generating a GDP of US 3,925 billion
- According to our model, the elasticity of broadband with regard to GDP growth is 0.017% for 1 % increase in penetration for a period without economic crises (2004-8)
- Assuming the possibility of bias (and given the lack of time series) we are inclined to consider as a lower bound the elasticity calculated by Koutrompis (2009) for countries with broadband penetration lower than 20%: 0.008 %
- According to these two estimates, broadband growth (at a prorated average of 37% in the last year) has contributed between \$ 6.7 billion and \$ 14.3 billion of GDP
- This impact includes direct effects (in the telecommunications industry) and indirect (spillover effects), including not only the incremental impact but also the preservation of economic growth

It is also expected that, based on the OECD experience, an increase in broadband penetration will accentuate the economic impact of broadband

ACCELERATING ECONOMIC IMPACT OF BROADBAND



We also estimated the impact of broadband on job creation in Chile

VARIABLES UTILIZED TO MEASURE BROADBAND IMPACT ON CHILEAN EMPLOYMENT

Type of variable	Data set (by quarter)	Source	Rationale
Occupation	Occupation rate (2002-9)	Regional Institute of Statistics	Dependent variable
Control for labor intensity of region	Economic activity index (2001-9)	Regional Institute of Statistics	Measure for starting point of growth
Broadband penetration growth	Broadband penetration growth (2002-9)	Subtel	Independent variable

According to the model, 1 percentage point increase in broadband penetration results in an increase of 0.18 points in the occupation rate

BROADBAND IMPACT ON EMPLOYMENT IN CHILE (12 Regions 2002-9)

Employment Rate = β_1 * Economic activity index + β_2 * (Δ broadband penetration) + Constant

Occupation Rate	Coefficient	Standard error	T-statistic	P>[t]	95% Conf. interval
Economic activity index (-1)	0.0003509	0.0000595	5.90	0.000	.0002338
Broadband penetration growth (-1)	0.0018118	0.0004708	3.85	0.000	.0008853
Constant	0.8682527	0.0079638	109.03	0.000	.85258283

Number of observations	
F(4,14)	324
Prob>F	0.0000
F(2,310)	60.89
R2	0.2820

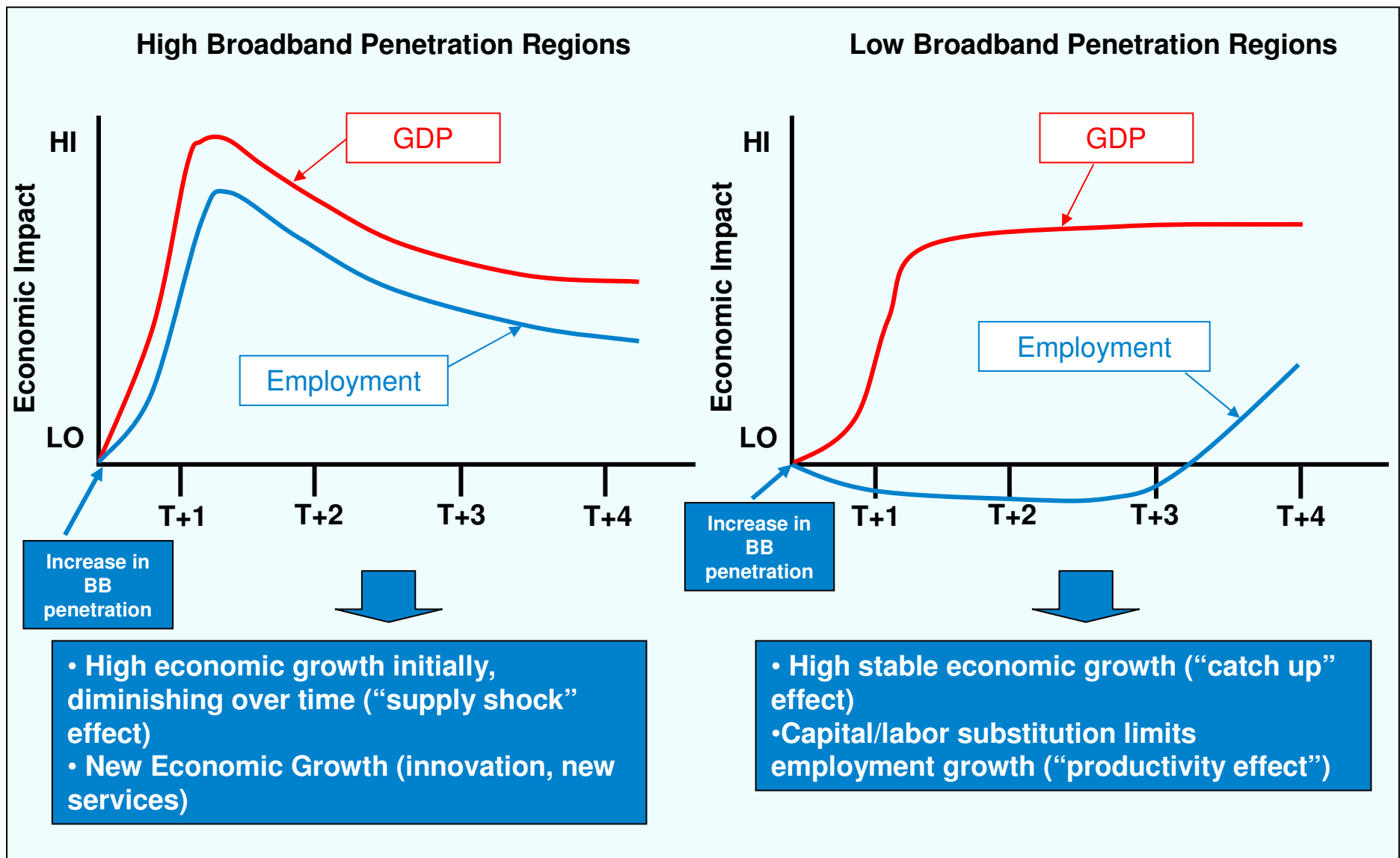
INTERPRETATION

- The data set includes quarterly indicators for the 12 regions of Chile between 2002 and 2009 (the Metropolitan Region is excluded because it does not provide quarterly data)
- The specific characteristics of each region have an impact on the labor market and are controlled by the fixed effects of the panel data

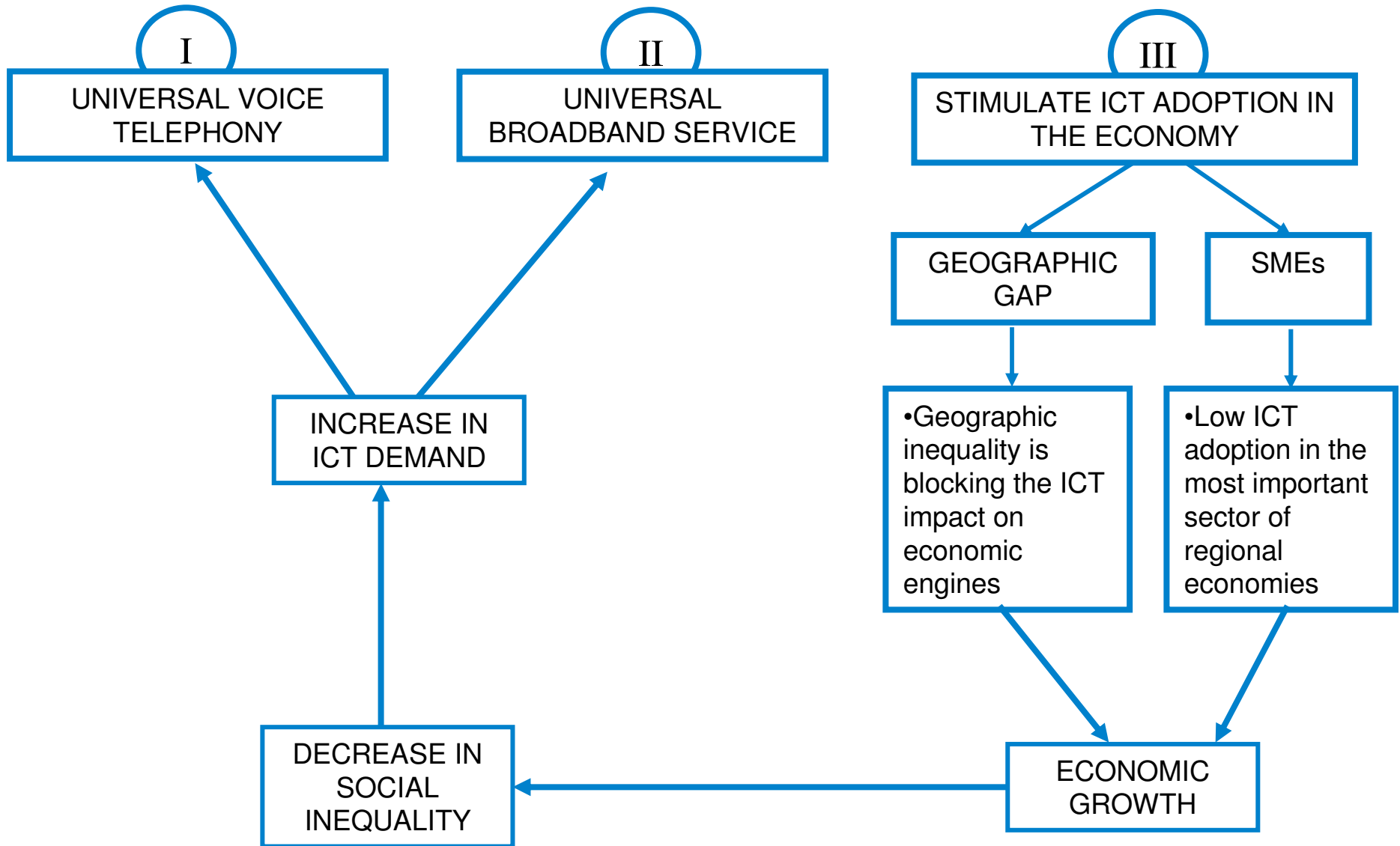
According to the Chilean model, broadband has contributed to the creation of 114,500 jobs in this country

- With an employment rate of 93%, the Chilean workforce amounts to 6,500,000 individuals
- From this percentage, broadband has contributed to 0.18 points in the occupation rate for each 1% incremental penetration
- Chile has reached a broadband penetration of 9.78%, which determines that, at the national level, broadband has contributed to 1.76 percentage points in the national employment rate
- This results in 114,500 jobs between direct and indirect jobs

However, it is important to emphasize that the economic impact of broadband varies by region



In addition, addressing the economic penetration of ICT could achieve an important impact in tackling the equity challenge



To sum up, broadband has significant counter-cyclical impacts

- The deployment of networks have important direct, indirect and induced employment and output effects: multiplier effects range between 1.94 to 3.42 in industrialized countries
- Once deployed, broadband networks can achieve significant effects: in Latin America and the Caribbean, we estimated that 1% increase in broadband penetration yields 0.0178 point contribution to GDP growth
- Furthermore, broadband can also contribute to employment creation: we estimated that in the case of Chile broadband has contributed to 0.18 points in the occupation rate for each 1% incremental penetration
- Finally, the diffusion of ICT will have additional social impact in contributing to tackle the economic inequality challenge

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Government policy plays a critical role in enhancing performance of the ICT sector

- Among the policies studied, the development of appropriate competition models for the telecommunications sector is a critical driver of sector performance
- Telecommunications policies need to be integrated within an overall vision and blueprint of the target ICT sector, including all other elements of the eco-system (software applications, content development and computing).
- Infrastructure oriented policies need to be combined with an emphasis on demand side policies to stimulate ICT adoption
- In addition to specific policies, proactive and continuous government planning, combined with a disciplined follow-up, is a key lever to drive performance improvement
- Policies and government planning need to be complemented with leadership and ownership from the executive branch

To achieve economic impact, it is important to put in place six public policy initiatives (1/2)

POLICY	DETAILS
1. Development of comprehensive ICT promotion policies	<ul style="list-style-type: none"> • Develop national plans supported by a strategic vision for the sector • Clarify all strategies oriented to the development of the ICT production sector, considering the positive spillover effects on the economy as well as the potential negative impact on innovation • Recognize the role of the state not only as a regulator and planner, but also as an implementer of ICT promotion programs
2. Implementation of ICT training programs	<ul style="list-style-type: none"> • Modify the ICT training paradigm with the consequent qualitative (type of education) and quantitative (volume of graduates) change • Implement training programs aimed at building awareness of policy makers around the economic impact of ICT • Create programs that promote the linkage between tertiary education, research and production
3. Accelerate the deployment of basic infrastructure based on public-private partnerships	<ul style="list-style-type: none"> • Emphasize ICT deployment in economic corridors • Accelerate fixed and mobile broadband deployment • Ensure service coverage and network construction through public and private investment • Emphasize development of mobile platforms to address market failures in fixed broadband

To achieve economic impact, it is important to put in place six public policy initiatives (2/2)

POLICY	DETAILS
<p>4. Development of systems and methodologies aimed at monitoring the economic impact of ICT</p>	<ul style="list-style-type: none"> • Improve gathering and diffusion of information related to the economic impact of ICT • Create the necessary instruments to measure ICT economic impact • Normalize performance metrics to allow comparison of development levels and regional impact
<p>5. Leverage the spillover effect of governments as primary ICT users</p>	<ul style="list-style-type: none"> • Establish a minimum level of adoption of tools and ICT platforms by state and municipal governments • Coordinate administrative decentralization policies with ICT adoption by municipal governments • Leverage the purchasing power of the State as a tool to stimulate ICT adoption by Small & Medium Enterprises
<p>6. Develop a program aimed at stimulating the adoption of ICT by Small and Medium Enterprises</p>	<ul style="list-style-type: none"> • Adopt tax incentive policies to promote ICT adoption by SMEs • Promote consulting services to facilitate ICT adoption • Stimulate ICT suppliers to offer products and services tailored to the needs of SMEs

